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INFO RUEHB/AMEMBASSY BEIJING 1853
RUEHKO/AMEMBASSY TOKYO 1952
RHHMUNA/CDR USPACOM HONOLULU HI
RUALSFJ/COMUSJAPAN YOKOTA AB JA
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RHMFSS/COMUSKOREA SCJS SEOUL KOR
RHEHNSC/NSC WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC//OSD/ISA/EAP//

C O N F I D E N T I A L SEOUL 000083

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E.O. 12958: DECL: 12/10/2014

TAGS: PGOV PREL ECON KS

SUBJECT: POLITICAL PERSPECTIVES ON ROK'S 2007 BUDGET

REF: 06 SEOUL 4263

Classified By: POL M/C Joseph Y. Yun. Reasons 1.4 (b,d).

SUMMARY

¶1. (SBU) In a marathon session that lasted through the night and concluded at 5 a.m. on 27 December, the National Assembly came to an agreement on the 2007 budget. The approved budget will allow local governments to spend more on infrastructure projects and social welfare while some funding for North Korea assistance projects was reduced. This year's budget negotiations went better than last year when the GNP boycotted the final vote in protest of the Private School Act; an issue that remains unresolved a year later. The upcoming December 2007 presidential election had less of an impact on the budget negotiation process as Assembly Members looked beyond 2007 and into 2008 when they will run for reelection. The weakened position of President Roh and the Uri Party left the door open for the opposition GNP to have greater influence in the final makeup of the 2007 budget while the minor opposition Democratic Labor Party (DLP) was marginalized with little influence in the final outcome.

THE BASIC NUMBERS

¶2. (U) The agreed budget was set at 235.4 trillion won (\$253.1 billion), smaller than the government's proposal of 238.5 trillion won. Despite a proposal that underwent the largest cuts in the history of the Assembly, the final budget amount is an increase of seven percent over the 2006 amount. The budget is divided into spending of 156.6 trillion won in general accounts, 6.8 trillion won in special accounts and 72 trillion won in government-run accounts.

INTER-KOREAN COOPERATION FUND

¶3. (SBU) Funding for projects in support of assistance projects for North Korea, known as the Inter-Korean Cooperation Fund or IKCF, was the main sticking point that forced the negotiations to continue for 25 days beyond the statutory deadline of December 2. According to the Vice Chairman of the Special Committee on Budget and Accounts Park Kye dong, a GNP lawmaker, the GNP was pushing to cut the Ministry of Unification's (MOU) request for 650 billion won for the IKCF down to only 150 billion won. Following Budget Committee negotiations, the end result was only a 150 billion

won cut resulting in an allocation of 500 billion won to the IKCF.

¶4. (SBU) MOU officials in subsequent conversations with poloff, however, claimed that the Ministry had other funding resources. The MOU anticipated spending 1.04 trillion won in 2007 on inter-Korean activities, excluding obligations associated with the Korean Peninsula Energy Development Organization. Per reftel, MOU officials in late 2006 were already planning for rice and fertilizer shipments to North Korea in 2007 equal to past years, which were around 500,000 tons of rice and roughly 200,000 to 300,000 tons of fertilizer, should the ROKG decide to resume its humanitarian aid following progress in the Six Party Talks. In other words, MOU officials have not indicated substantial concern over the National Assembly cut in its budget request.

OTHER NORTH KOREA CUTS

¶5. (SBU) In addition to the IKCF funding negotiations, Uri members attempted to increase fertilizer aid to North Korea to 400,000 tons from 300,000 tons and food aid to 500,000 tons from 400,000 tons. In the end, the GNP was able to stifle these two initiatives and both fertilizer and food aid levels remained at the same level as approved in the 2006 budget. Other items that were cut from the final bill include:

- Keumgang Mountain tourism subsidy for students: 3 billion won
- Keumgang Mountain Tour Management Fund: 1 billion won
- Keumgang Mountain Meeting Facility Fund: 5 billion won
- Inter-Korean Railroad Repair Fund: 1 billion won

IMPACT OF 2007 PRESIDENTIAL ELECTION

¶6. (C) According to the Uri lawmaker and Chairman of the Special Committee on Budget and Accounts Lee Kang-rae, the Uri Party attempted to keep the engagement policy with North Korea alive, especially in light of the recent resumption in the Six-Party Talks. Given the 2007 presidential election, Lee said that the GNP was keen to prevent the Uri Party from using the budget as a means to gain ground in the election battle. Increasing the budget for job creation initiatives by 80 percent (750 billion won) was considered Uri's biggest success in the budget negotiations, Lee said.

¶7. (C) A fellow Budget Committee Member, Shim Sang jeong from the DLP had a different perspective on the effect of upcoming elections. Shim said that Committee members were less concerned about the 2007 presidential election and more concerned with the 2008 Parliamentary elections as they negotiated the final bill. Trying to funnel money to local infrastructure projects and social welfare initiatives, Assembly Members were laying the groundwork for their own reelection. Given the weakened position of President Roh and the Uri presidential candidates, Uri Committee members in particular felt it was more prudent to focus on regional issues while GNP focused on national issues.

COMMENT

¶8. (C) In the end, the GNP showed that they could restrain the budget process and limit Uri's engagement initiatives. Uri showed that they could push back on GNP and maintain respectable levels of funding for North Korean aid, thereby keeping many of the current engagement policies afloat for at least another year. The biggest loser might have been the DLP who was marginalized between the much stronger GNP and Uri Committee Members. Unlike last year when the DLP was afforded the chance to take a more prominent role in the budget process given the absence of the GNP in the final vote, this year both GNP and Uri were fully engaged and worked hard to effectively utilize the budget for their own benefit. Non-aid related projects with North Korea, such as the Keumgang Mountain Tourism Project, suffered heavy cuts as the Budget Committee found it more difficult to justify this

type of activity given the North's missile and nuclear tests
in recent months.

VERSHBOW